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Looking Ahead to Hong Kong



An Update on the WTO
Agriculture Negotiations



Agriculture and
Agri-Food Canada

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Foreword

As part of the Government of Canada's commitment to inform Canadians of developments in the World Trade Organization (WTO) agriculture negotiations, Agriculture and Agri-Food Canada (AAFC) prepared three information documents over the last few years entitled, "Making Progress in Global Agricultural Trade: An Update on the WTO Agriculture Negotiations," "Making Progress in Global Agricultural Trade: A Further Update on the WTO Agriculture Negotiations," and "Levelling the International Playing Field for Canadians: Reaching a Milestone in the WTO Agriculture Negotiations." These documents were widely circulated to the full range of agri-food stakeholders between the fall of 2002 and the winter of 2004, and are available on AAFC's Agri-Food Trade Policy Web site (www.agr.gc.ca/itpd-dpci-english/consultations/).

This document builds on these three documents by providing current information on recent developments in the WTO agriculture negotiations. It focuses on how the negotiations have evolved since July 2004, the two status reports released by the Chairman of the agriculture negotiations in June and July 2005, and the next steps in the negotiations as WTO Members get closer to the next WTO Ministerial Conference, scheduled to take place in Hong Kong in December 2005.

Please refer to "Making Progress in Global Agricultural Trade: An Update on the WTO Agriculture Negotiations," for a glossary of trade policy terms as well as a more detailed description of Canada's negotiating objectives, the objectives of other key countries in the negotiations, and the key agricultural results of the Uruguay Round of multi-lateral trade negotiations, particularly the current WTO Agreement on Agriculture.

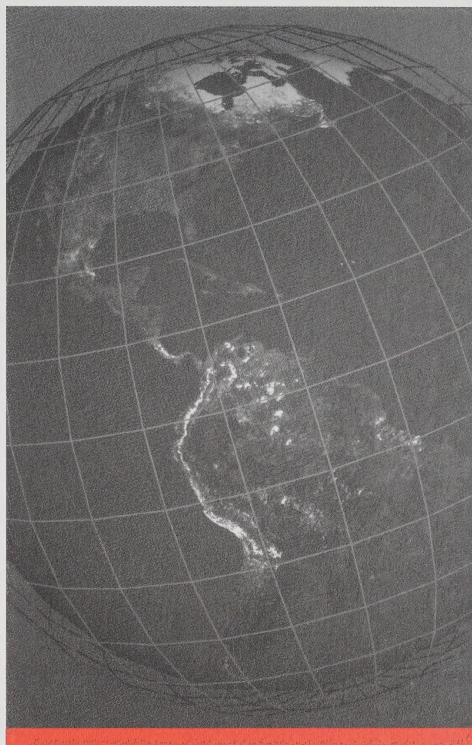


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Section 1

1

Moving Beyond the July 2004 Framework on Agriculture

The July 2004 Framework on Agriculture

In July 2004, WTO Members achieved a milestone by agreeing to a framework on agriculture as part of a broader package setting out the way forward for the Doha Development Agenda (DDA). The framework on agriculture identified concepts and approaches to guide negotiators as they develop “modalities” or detailed rules and commitments in the three main areas of the negotiations — domestic support, export competition, and market access. It reflected the level of ambition in the Doha mandate for the agriculture negotiations, agreed to by all WTO Members during the 2001 WTO Ministerial Conference that initiated the Doha round of negotiations.

From a Canadian perspective, the July 2004 framework was a very welcome achievement in the negotiations, as it ensured that the negotiations would continue to point in the direction of a more level international playing field. Canada was also pleased that the framework provided us with the scope to continue advancing our negotiating objectives — the complete elimination of export subsidies, the substantial reduction of trade-distorting domestic support, and real and significant market access improvements for all agri-food products. While the framework went further on a few issues than Canada would have liked, it reflected many of the key ideas that Canada has been putting forward since the negotiations began. Annex A provides an overview of the July 2004 framework on agriculture. A fuller discussion of the framework is provided in AAFC’s third information document entitled, “Levelling the International Playing Field for Canadians: Reaching a Milestone in the WTO Agriculture Negotiations” at www.agr.gc.ca/itpd-dpci/english/consultations/infodocIII.htm.



The Doha Mandate for the WTO Agriculture Negotiations

At the fourth World Trade Organization (WTO) Ministerial Conference in Doha, Qatar in November 2001, WTO Members agreed to launch a new broad-based round of multilateral trade negotiations, incorporating the ongoing agriculture negotiations. On agriculture, WTO Members agreed to an ambitious negotiating mandate, committing themselves to: “comprehensive negotiations aimed at substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support.” For the full text of the Doha mandate, visit http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_e.htm#agriculture.

Entering into the Modalities Phase of the WTO Agriculture Negotiations

WTO Members began negotiating on the basis of the Doha mandate and the framework to develop agricultural modalities during the fall of 2004. Negotiations continued to build in intensity over the winter and spring of 2005, as WTO Members

agreed to work towards a "first approximation" of modalities by the end of July 2005. Their objective was to make progress in resolving structural issues in the negotiations, so that discussions in the fall could focus on determining the level of ambition in preparation for the next WTO Ministerial Conference in Hong Kong (December 13-18, 2005).

At certain points along the way, informal mini-Ministerial meetings were held to advance key issues in the entire DDA, including agriculture. Ministers and representatives from 20-30 countries met several times, including meetings in Switzerland (January 2005), Kenya (March 2005), France (May 2005), and China (July 2005). Canada was represented at all of the mini-Ministerial meetings.

Combined with the on-going negotiating sessions in Geneva, these mini-Ministerial meetings were aimed at providing the political guidance necessary to continue moving the negotiations forward. For example, the agriculture negotiations had stalled in the spring of 2005 over the market access issue of converting specific tariffs to a simpler percent (ad valorem) value. After much discussion in Geneva, this issue was finally resolved during the Paris mini-Ministerial meeting in May, thus allowing discussions in all areas of the agriculture negotiations to move forward.

New Chairman of the WTO Agriculture Negotiations

In the midst of the intensive negotiations that were taking place during the spring of 2005, the Chairman of the WTO agriculture negotiations, New Zealand's Ambassador to the WTO, Tim Groser, announced that he would be running as a candidate in New Zealand's fall 2005 election. While he offered to remain as Chairman of the agriculture negotiations through to the Hong Kong Ministerial Conference, WTO Members felt that it would be most appropriate to select a new Chairman to replace Ambassador Groser. WTO Members selected New Zealand's incoming Ambassador to the WTO, Mr. Crawford Falconer, to become the new Chairman of the negotiations. Ambassador Falconer assumed his position as Chair on August 1, 2005, and since that time Canada has begun working closely with him. Canada will continue to cooperate with him and other WTO Members as the negotiations progress.

Negotiating Dynamics

In March 2005, talks resumed between the so-called "Five Parties," a group of key players who met frequently during the July 2004 framework negotiations. The group includes the U.S., European Union, Brazil, India and Australia. Given that the Five Parties does not include Canada, members of the G-10 group of protectionist countries (Japan, Switzerland, and others), nor any African, Caribbean and East Asian Members, Canada and many other WTO Members have raised strong concerns about the role of the Five Parties in the negotiations. In response to these concerns, Members of the Five Parties met in the spring to discuss the possibility of expanding the group. While nothing concrete has been agreed, Canada and several other so-called "friends of the Five" were invited to attend a meeting of the Five Parties in Geneva in July 2005, in Paris in September 2005 and in Geneva in October 2005.

Canada is widely respected as one of the most active and influential players in the negotiations. The source of our strength has been our ability to bring practical, creative, and credible ideas to the table to build bridges and to move issues forward. Looking ahead, our ability to influence the negotiations will continue to be directly related to our ability to generate constructive ideas, and to work on building consensus around ideas that ultimately help to advance our own negotiating objectives.

Negotiating groups remain a necessity, given the inherent difficulty of negotiating effectively with all 148 WTO Members at the same time. Chairman Groser recognized this reality, and structured his informal consultations in Geneva around small groups of 15 to 20 WTO Members. The selection of countries for these meetings has varied depending on which issues are being discussed. Nevertheless, Chairman Groser consistently ensured that these discussions included key players (U.S., European Union, Brazil, India, Australia, Canada, Switzerland), as well as representatives of key negotiating groups such as the G-10, G-20, G-33, the Cairns Group, and the African, Caribbean, and Pacific group of countries. More information on these negotiating groups is available in AAF's third information document entitled, "Levelling the International Playing Field for Canadians: Reaching a Milestone in the WTO Agriculture Negotiations" at www.agr.gc.ca/itpd-dpci/english/consultations/infodocIII.htm.

Section 2

2

Where the Issues Stand – The Chairman's Status Reports (June and July 2005)

By late spring 2005, the negotiations had progressed in several important areas, including some aspects of export competition and domestic support. However, much more work was needed in other key areas of the negotiations, especially in regard to market access issues, in order that WTO Members could achieve their goal of agreeing to a “first approximation” of modalities by the end of July 2005.

In an effort to focus discussions to achieve this goal, Chairman Groser released an initial status report on June 27, 2005, to summarize where the issues stood in all three of the main areas of the negotiations. His initial report identified key questions and issues that needed to be addressed in order to move the issues ahead enough for WTO Members to be in a position to agree on a “first approximation.”

The initial status report emphasized the need for WTO Members to work sequentially through the complex issues before them. In other words, the report stressed the need for WTO Members to establish the structure of modalities first, before turning to more politically-charged discussions dealing with the level of ambition WTO Members needed to achieve in the areas of export competition, domestic support, and market access. In many cases, Chairman Groser recommended that ambition-related discussions of key issues be postponed until what he considered to be the “political” phase of the negotiations in the fall of 2005. For example, he urged WTO Members to focus on the structure of the formulas for reducing trade-distorting domestic support and tariffs during their summer discussions, leaving issues concerning the size or percentages of the reductions to the fall.

Chairman Groser's initial status report became the focus of the discussions during the July 4-8, 2005, negotiating session in Geneva. Ministers also focused on the questions posed by Chairman Groser in an

effort to advance their discussions during the China mini-Ministerial meeting as well. Further intensive discussions took place in Geneva during the last two weeks of July 2005.

By this time, however, it became clear that WTO Members could not narrow their differences. Essentially, the negotiations had stalled over two primary issues. The first issue was the nature of the tariff reduction formula, and in particular, the issue of whether flexibility should be allowed within the formula to accommodate some sensitivities. The European was the leading advocate of such flexibility supported by the G-10. The second issue dealt with disciplines on the blue box, where members continued to press the U.S. to accept more restrictive criteria.

Consequently, WTO Members were unable to agree on a “first approximation” of modalities in agriculture, or indeed in the other areas of the DDA (e.g., non-agricultural market access, services, rules). However, progress was achieved by more clearly setting out the specific decisions and movement required to advance the agriculture negotiations, and by identifying the key points of divergence. Chairman Groser released a second status report on July 28, 2005, to capture the discussions that had taken place during July, and to outline the great deal of work that remained. His second report was tabled with the WTO General Council as part of a broader package that provided an update on progress in other areas of the DDA.

Chairman Groser's intent in the second report was to clarify the issues necessary to enable WTO Members to achieve a full package of modalities by the Hong Kong Ministerial Conference. It highlighted those issues that needed to be settled quickly, before a broader range of issues could be discussed. Specifically, it identified that movement by the key

players was needed on the critical issues of trade-distorting domestic support (especially the blue box), and the tariff reduction formula in market access, in

order to unblock the negotiations and to pave the way towards a successful Ministerial Conference in December.

Overview of the Chairman's Status Reports

The following provides an overview of where the issues stand in the three main areas of the negotiations based on the Chairman's initial status report (June 27, 2005) and second status report (July 28, 2005), given that he urged WTO Members to consider the two reports together, as well as in the broader context of the July 2004 framework on agriculture.

Export Competition

- Refers to this area of the negotiations as the most advanced of the three;
- Reminds Members that reaching an end date for the elimination of export subsidies is the key issue in this area and thus must be discussed in the fall;
- Calls for further clarification on parallel commitments in export credits, food aid, and exporting state trading enterprises (STEs);
- On export credit, calls for further disciplines on export credits of 180 days or less;
- On food aid, stresses that the concerns of developing countries about the "practical effects" of any new disciplines need to be addressed and suggests that this could be done by first defining "genuine emergency food aid." (Canada's proposal for the establishment of a "safe box" of food aid practices that would not be subject to disciplines, with disciplines to be established on practices outside such a box, has attracted widespread support). Also urges Members to discuss issues of further disciplines (e.g., fully grant form, disciplines on in-kind food aid, monetization, etc.) in the fall;
- On exporting STEs, urges that Members need to quickly agree on a more targeted definition of the new disciplines on subsidies provided by STEs (government financing, the underwriting of losses). Also calls for discussions on the issue of the future use of monopoly powers of STEs to be undertaken later in the fall.

Domestic Support

- Identifies the two key issues where progress is needed to advance the negotiations: the tiered reduction formula for trade-distorting domestic support and where the largest users of this type of support would fall; and the disciplines that will apply to the blue box.
- Reflects the growing consensus around Canada's proposal that the tiered structure for reducing trade-distorting domestic support treat the European Union on its own as the largest user, followed by a tier for the U.S., with Japan in either the first or second tier, and with the balance of developed countries in the third tier (placement of developing countries within these or other tiers remains under discussion);
- Calls for discussions of the methodology for determining product-specific caps, and reductions to *de minimis* (i.e., current exemption for reductions of trade-distorting support less than 5% of the value of production) in the fall;
- Calls on Members to consider proposals for clarifying green box criteria. (Only Canada and the G-20 have made detailed proposals for changes to the green box criteria). Also indicates that Members should develop some language for new green box provisions to reflect developing country policies with the important provision that the criteria ensure that any green box measures remain only minimally- or non-trade distorting.

Market Access

- Notes that this is by far the most complex of the three areas of the negotiations, with the fundamental issue being whether there should be flexibility in the tariff reduction formula, or whether flexibility should only be provided through a separate category for sensitive products;
- An important secondary issue is whether the reduction formula should be linear (one level of reduction for each tier) or progressive (resulting in higher tariffs within a tier being reduced by greater amounts than lower tariffs). Canada has made a proposal for a progressive formula that remains under serious consideration.
- Calls on Members to settle issues related to the structure of the tariff reduction formula as quickly as possible;
- Stresses that any flexibility for sensitive products would need to be specified precisely in terms of the extent of flexibility and the cost for using such flexibility.

The full texts of the Chairman's status reports are available at
www.wto.org/english/news_e/news05_e/agric_28july05_e.htm

Canada's View of the Chairman's Status Reports

From Canada's perspective, both of the Chairman's status reports are good summaries of where the issues stand in the negotiations. They reflect Canada's interests well, as they continue to point the negotiations in the direction of a more level international playing field. Furthermore, they position Canada well to continue advancing our negotiating objectives as the negotiations progress. In the areas of export competition, they reiterate the commitment that all WTO Members have made to completely eliminate all export subsidies by a credible end date to be negotiated, and for effective disciplines on practices such as export credit and food aid. In the area of domestic support, they advance Canada's objective of achieving substantial reductions in trade-distorting domestic support and of establishing effective new disciplines on all types of government subsidies. In the area of market access, they call for further work to ensure that WTO Members achieve substantial improvements for all agri-food products, while allowing for flexibility for sensitive products.

Importantly, the two status reports capture some of the key ideas that Canada has been putting forward since the negotiations began. For example, they draw heavily from Canada's proposal that those WTO Members with the highest spending commitments (i.e., the European Union, U.S., and Japan) should cut their trade-distorting domestic support by higher percentages than other Members. Similarly, they reflect Canada's position about the imperative of achieving substantial market access improvements, while building flexibility into any approach on market access for sensitive products. Proposals Canada has made on food aid, STEs, blue box and green box disciplines and the tariff reduction formula are also effectively advanced by the status reports.

Blue Box Support

"Blue box" support is considered to be a halfway point between the "amber box" (trade-distorting) and the "green box" (non- or minimally-distorting) support. Blue box support under the current WTO Agreement on Agriculture is domestic support that is production-limiting. The EU is the biggest user of this type of support. The U.S. has used the blue box only once in 1995, and Canada has never used the blue box.

The July 2004 framework set out two possible approaches for addressing blue box criteria:

- One that essentially captures the existing criteria with some modifications, and
- One entitled "direct payments that do not require production."

Both sets of criteria are to be negotiated under the overall condition that blue box programs are to be less trade-distorting than amber box programs.

The issue of blue box criteria has been a particular focus over the last few months because of concerns that the U.S. could place its counter cyclical payments (which do not require production, but are directly tied to prices) into a modified blue box. If the U.S. were able to do this, it would allow a trade-distorting program to be placed into a category for less trade-distorting support without any reform. It would also provide the U.S. with more room in their total amount of amber support, thereby allowing them to accept reductions without making any real changes to their programs or spending levels. Canada, the European Union, and other WTO Members are strongly opposed to this outcome, and are pressing the U.S. to show much more ambition in the area of domestic support in general, and in more specific discussions of blue box criteria in particular.

Canada will, however, continue to face very strong pressure on some issues that have implications for our supply management system and the Canadian Wheat Board (CWB) as the negotiations move ahead in the fall. Canada will continue to work to advance our objectives and negotiating approaches, and will continue to defend the ability of our producers to choose how to market their own products.

On the CWB, Canada has agreed to negotiate the elimination of subsidies through government financing and underwriting of losses, but sees no justification for further disciplines on monopoly powers. With respect to imports of sensitive products such as dairy, poultry and eggs, Canada is continuing to argue that there should be flexibility in how access improvements are made for these products to reflect domestic policy approaches.



Section 3

3

The Road to Hong Kong

The negotiations resumed again in September 2005, and WTO Members are working to advance the issues identified in the Chairman's status reports. Canada's goal in agriculture for Hong Kong is to make enough progress so that the Doha round of negotiations can be completed in 2006. This would then allow for national ratification of the final WTO agreements, and their implementation through domestic legislation, in the first half of 2007.

With the necessary political engagement from the key players, and hard work from all WTO Members, Canada's view is that this goal is realistic. We expect, however, that there will need to be a significant increase in the intensity of the negotiations to achieve this goal over the coming months.

Now that the level of ambition to be achieved is being addressed in more specific terms through discussion of the depth of reductions in trade-distorting support and tariffs, for example, the agriculture negotiations are becoming more difficult, and the stakes are higher. Ministers will need to remain engaged throughout the fall, providing direction to their negotiators as necessary. Throughout this process, Canada is continuing to work constructively with a wide range of WTO Members, putting forward ideas to move the negotiations ahead in a manner consistent with our negotiating objectives.

Preparations are currently underway for Canada's participation in the Hong Kong Ministerial Conference. Canada's delegation will be led by the Honourable Jim Peterson, Minister of International Trade. The Honourable Andy Mitchell, Minister of Agriculture and Agri-Food Canada, and the Honourable Aileen Carroll, Minister of International Cooperation will also be playing large roles in Hong Kong given the importance of agriculture and development in the DDA. The three Ministers will be accompanied by a number of federal, provincial, and municipal government officials.

The Government of Canada expects that a large number of Canadian industries and non-governmental organizations will be represented in Hong Kong to observe the Conference. Plans are underway to ensure that all Canadians, both those in Hong Kong as observers and those back at home, are kept as up-to-date as possible on developments in the Ministerial Conference as they occur. More information on the preparations for consulting and informing Canadians during the Ministerial Conference is available on International Trade Canada's website at www.dfait-maeci.gc.ca/tna-nac/WTO/ministerial-6en.asp.

As the agriculture negotiations progress to Hong Kong and beyond, the Government of Canada will continue to work closely with the provincial governments, the full range of agri-food stakeholders, and Canadians in a variety of ways, including meetings with industry associations, and provincial and industry advisory groups. The Government of Canada will also continue to inform Canadians on developments in the WTO and other trade negotiations through International Trade Canada's trade negotiations and agreements website, www.international.ca/tna-nac, and AAFC's trade policy website, www.agr.gc.ca/itpd-dpci/indexe.html.

Annex A

Overview of the July 2004 Framework on Agriculture

Export Competition

- Elimination of export subsidies on all agricultural products by a credible end date to be negotiated;
- Elimination of all export credits with repayment periods of over 180 days;
- Additional disciplines to be negotiated to cover export credit programs within 180 days;
- Development of new rules to prohibit the misuse of international food aid for commercial advantage;
- Elimination of export subsidies provided to, or by, export state-trading enterprises (STEs), including government financing, and the underwriting of losses;
- Issue of the future use of monopoly powers of exporting STEs to be subject to future negotiation; and
- Establishment of effective transparency provisions for all export competition disciplines, in accordance with WTO practice and consistent with commercial confidentiality considerations.

Domestic Support

- Harmonizing reductions in overall trade-distorting domestic support, which will ensure that those countries that provide the highest levels of trade-distorting support make the largest reductions, with an initial down payment of 20%;
- Harmonizing reductions in the amber category of trade-distorting domestic support;
- New constraints on product-specific support with the methodology to be negotiated;
- Reductions in de minimis levels, which currently exempt support that is less than 5% of the value of production from spending limits;
- Further disciplines on the blue box, including a new effective and defined limit of 5% of the value of production on spending;
- Review of all blue box criteria;
- Review and clarification of green box criteria to ensure that spending in this category has no, or at most, minimal effects on trade and/or production; and
- Establishment of an effective monitoring and surveillance mechanism.

Market Access

- Substantial improvements in market access for all agricultural products in all markets;
- Deeper cuts in higher tariffs, with flexibility for sensitive products;
- Flexibility for how improvements will be offered for sensitive products through a combination of tariff quota expansion and tariff reductions on a limited number of sensitive tariff lines, to be negotiated;
- Expansion of tariff quotas for sensitive products, with a base to be established in light of coherent and equitable criteria;
- Rules and disciplines on tariff quota administration, to be negotiated;
- Issue of tariff escalation to be addressed; and
- Question of the special agricultural safeguard to remain under negotiation.

For the full text of the framework on agriculture, visit

http://www.wto.org/english/tratop_e/dda_e/draft_text_gc_dg_31july04_e.htm

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